

CASH FLOW STATEMENTS

Presented by

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WHAT IS A CASH FLOW STATEMENT?

A financial statement that provides aggregate data regarding all cash inflows a fund receives from both its ongoing operations and external sources, as well as all cash outflows, payments made for operating and financing activities, during a given time period.

- > shows how <u>CHANGES</u> in balance sheet accounts and income/expenses affect cash and cash equivalents in the fund.
- >concerned with the flow of cash in and cash out of the fund. (i.e. increases or decreases in cash balance)



IMPORTANCE OF CASH FLOW STATEMENTS

Because business-type & internal service funds use full accrual accounting, the Statement of Revenues, Expenses and Changes in Net Asset at fiscal year end may not necessarily reflect <u>CHANGES</u> in the fund's <u>cash positions</u>.

For example, when the Water Fund bills customers each month for services provided, the amounts billed are recognized as revenue, but the Water Fund may not receive the cash payment until a later date. While the fund may seem financially sound, during a specific time period, the fund could actually end up with less cash than when it started.

Failure to adequately manage the cash flow of the fund may result in negative cash balances or late payments to vendors/lenders.



WHEN SHOULD A CASH FLOW STATEMENT BE PREPARED?

A CASH FLOW STATEMENT SHOULD BE PREPARED AT FISCAL YEAR END (Per State AFR format) FOR;

- ✓ Business-type funds
 - >One statement that presents each <u>Major</u> business-type fund in a separate column and a totals column
 - >One statement that presents each Non-major business-type fund in a separate column and a totals column
- ✓ Internal Service funds
 - >One statement that presents each Internal Service fund in a separate column and a totals column

Cash Flows Statements are not required for Fiduciary Funds



WHY DO WE HAVE TO PRESENT CASH FLOW STATEMENTS?

- A) Officials of the local government require them
- B) Potential lenders or creditors require them
- C) Potential grantors require them
- D) GASB requires them
- E) All of the above



IMPORTANCE OF CASH FLOW STATEMENTS INTERNALLY AND EXTERNALLY

Internal personnel and external entities will use the statement of cash flows as an analytical tool, which will assist them in determining;

- > The short-term viability of the fund, particularly its ability to pay bills
- Whether the fund will be able to repay potential new debt obligations
- Whether the fund is having trouble with cash position even though it appears financially sound



PREPARATION METHODS OF A CASH FLOW STATEMENT

INDIRECT METHOD

The indirect method <u>uses net-income as a starting</u> <u>point</u>, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions.



PREPARATION METHODS OF A CASH FLOW STATEMENT

DIRECT METHOD

The direct method for creating and presenting a Cash Flow Statement reports major classes of gross cash receipts and payments.

- > Results in a more easily understood report
- Requires a supplementary report similar to the indirect method be included
- > Required to be used by GASB [GASB 34 ¶105]



There are 4 distinct elements in a local government's cash flow statement using the Direct Method;

- > Cash flows from operating activities
- > Cash flows from capital and related financing activities
- > Cash flows from non-capital financing activities
- > Cash flows from investing activities



Cash flows from operating activities

Begin with amounts reported on the **Statement of Revenues, Expenses and Changes in Net Assets**. These amounts represent an increase or decrease in cash associated with;

- Cash received from customers-charges for services or assessments
- > Cash payments for claims other than personal services
- Cash payments to employees
- Cash received (paid) for/from customer deposits being held

The beginning amounts are then adjusted by increases or decreases from the <u>CHANGE</u> in related **Balance Sheet** accounts.



Cash flows from capital and related financing activities

Begin with amounts reported on the **Statement of Revenues, Expenses and Changes in Net Assets**.

These amounts represent an increase or decrease of cash associated with;

- Cash payments for Interest paid on bonds, loans and advances whose proceeds were used to purchase a capital item
- > Cash received from intergovernmental capital grants



Cash flows from capital and related financing activities, (cont.)

Also include amounts received or spent causing cash to increase or decrease that <u>are</u> not reported as revenues or expenses on the **Statement of Revenues, Expenses** and **Changes in Net Assets** such as;

- Cash payments for principal repayment of bonds, notes, loans and contracted debt related to capital assets
- > Cash payments for acquisition and construction of capital assets
- > Cash received from the sale of capital assets
- > Cash received from new bonds, notes and loans used to purchase a capital asset

Amounts relating to the above will make up the pieces of adjustments and equal the total of the <u>CHANGE</u> amount(s) in related **Balance Sheet** accounts. (i.e. Capital Assets and Current & Non-current portions of Long-term debt)



Cash flows from non-capital financing activities

Represent an increase or decrease of cash associated with amounts that appear on the **Statement of Revenues, Expenses and Changes in Net Assets** such as;

- Cash increases when posting transfers from other funds
- Cash decreases when posting transfers to other funds



Cash flows from non-capital financing activities, (cont.)

Amounts associated with <u>CHANGES</u> in short-term and long-term interfund loans are also included. They represent an increase or decrease of cash that <u>do not appear</u> on the **Statement of Revenues, Expenses and Changes in Net Assets** associated with;

- Cash may increase or decrease from the <u>CHANGE</u> in related Balance Sheet account associated with short-term loans to other funds (Due from other funds)
- Cash may increase or decrease from the <u>CHANGE</u> in related Balance Sheet account associated with short-term loans from other funds (Due to other funds)



Cash flows from non-capital financing activities, (cont.)

- Cash may increase or decrease from the <u>CHANGE</u> in related Balance Sheet account associated with long-term loans to other funds (Advance to other funds)
- Cash may increase or decrease from the <u>CHANGE</u> in related Balance Sheet account associated with long-term loans from other funds (Advance from other funds)

Adjustments to cash for amounts related to interfund loans are determined by the <u>CHANGE</u> in related **Balance Sheet** accounts.



Cash flows from investing activities

Begin with amounts reported on the *Statement of Revenue*, *Expenses and Changes in Net Assets*. These amounts represent an increase or decrease of cash associated with;

- > Cash received from Interest on investments
- > Increases in cash from gain on fair value of investments
- > Decreases in cash from loss on fair value of investments

The beginning amounts are then adjusted by the <u>CHANGE</u> in related **Balance Sheet** accounts.



NON-CASH ENTRIES AND CASH FLOW STATEMENTS

Non-Cash entries

Disclosure required of Non-cash investing, capital, and financing activities

May be disclosed in a footnote or within the cash flow statement itself per Generally Accepted Accounting Principals (GAAP).



EFFECTS OF NON-CASH ENTRIES ON A CASH FLOW STATEMENT

Non-Cash entries

Amounts that appear on the **Statement of Revenue**, **Expenses and Changes in Net Assets** that <u>do not</u> increase or decrease cash such as;

- > Bad debt expense
- Capital contributions revenue (donations of capital assets)
- > Depreciation expense
- Gain (Loss) on sale of capital asset (BARS #371020)
- > Restatements

The beginning amounts are adjusted to -0- and redistributed as an adjustment to the appropriate line of one of the preceding elements



UNLOCKING THE SECRET TO PREPARING A CASH FLOW STATEMENT

For a <u>CHANGE</u> in <u>ASSETS</u> (other than cash)...The change in the cash account is in the <u>opposite direction</u>

For a <u>CHANGE</u> in <u>LIABILITIES</u>...The change in the cash account is in the <u>same</u> <u>direction</u>



CHANGE amount in Balance
Sheet Account =
current year balance – prior
year balance
at same point in time



UNLOCKING THE SECRET TO PREPARING A CASH FLOW STATEMENT

ASSETS

>When an <u>ASSET</u> (other than cash) increases,



The <u>Cash</u> account decreases



>When an <u>ASSET</u> (other than cash) decreases,



The <u>Cash</u> account increases



LIABILITIES

>When a <u>LIABILITY</u> increases, **1**



The <u>Cash</u> account increases



>When a <u>LIABILITY</u> decreases,



The <u>Cash</u> account decreases.





What Balance Sheet accounts increase and/or decrease when the Water fund purchases a capital asset?

>Asset increases (Capital Assets)





>Cash decreases



What Balance Sheet accounts increase and/or decrease when the Water fund sells a capital asset?

>Asset decreases (Capital Assets)





>Cash increases



What Balance Sheet accounts increase and/or decrease when the Water fund pays an insurance provider 6 months in advance?

>Asset increases (Prepaid expense)







What Balance Sheet accounts increase and/or decrease when the Water fund borrows money to purchase equipment?

>Liability increases (Long-term debt)





>Cash increases



What Balance Sheet accounts increase and/or decrease when the Water fund repays the <u>principal</u> <u>portion</u> of a long-term debt?

Liability decreases(Current portion of Long-term debt)



>Cash decreases





What Balance Sheet accounts increase and/or decrease when the Water fund issues a warrant to pay a claim?

>Liability decreases (Accounts payable)



>Cash decreases



LET'S PREPARE A CASH FLOW STATEMENT

PUTTING THE PIECES OF THE PUZZLE TOGETHER





Entering Balance Sheet account CHANGE amounts from Balance Sheet Column (C).

If the Difference in B/S Column (C) is a negative amount, enter as a positive amount (represents an increase in cash) in Worksheet Column (F) of the matching reference #.

If the Difference in B/S Column (C) is a positive amount, enter as a negative amount (represents a decrease in cash) in Worksheet Column (F) of the matching reference #.

		(E)	(F)	(G)	(H)
	CASH FLOW WORKSHEET	End of year increases and decreases of CASH From current year Statement of Revenues, Expenses and Changes in Net	Adjustments to cash Enter 'CHANGE' amounts from Balance Sheet Column (C)	Match reference in Column (G) to Balance Sheet Column (D)	Total=Adjusted End of year CASH increases and decreases Use adjustment amounts in Column
	CASH FLOWS FROM OPERATING A	110000	Column (C)		
1 1	Cash received from customers- charges for services or assessments	291,770.00		1, 3	$= (\mathbf{E}) + (\mathbf{F})$
32	Cash received from miscellaneous sources	251,770.00		2	
33	Cash payments for claims - NOT PAYROLL	(61,474.42)		8, 9, 15, 16, i	
34	Cash payments to employees	(103,813.62)		18, 24, 29	
35	Cash received (Paid) from deposits			25	
36	TOTAL CASH FLOWS FROM OPERATING ACTIVITIES				

900)		(E)	(F)	(G)	(H)
			End of year increases and			Total=Adjusted End of year
0/2	y	1	decreases of CASH	Adjustments to cash		CASH increases and decreases
			From current year Statement of Revenues, Expenses and Changes in Net Assets	Enter 'CHANGE' amounts from Balance Sheet Column (C)	Match reference in Column (G) to Balance Sheet Column (D)	
	CASH FLOWS FROM CAPITAL AS	ND RELATED F	•	5		$= (\mathbf{E}) + (\mathbf{F})$
37	Principal paid on bonds, notes, loans and contracted debt	Cash decreases - Enter as negative amount			The total of principal debt payments and	- (L) (I)
38	Proceeds from bonds, notes and loans	Cash increases - Enter as a positive amount			proceeds from new loans should equal the total of 23 & 28	
	Interest paid on bonds, loans and					
39	advances	<i>/</i>	(61,091.96)		17	
40	Acquisition and construction of capital assets	Should be a negative amount or -0- if no additions in current year			11, 12, 13, 14, ii, iii, iiii, less proceeds from sale of capital assets amount (F-41)	

6	0	0	3)
1	3	σ.	2	
-	2	0 /2) ?)

(E)	(F)	(G)	(H)
End of year increases and decreases of CASH	Adjustments to cash		Total=Adjusted End of year CASH increases and decreases
	Enter	Match	
From current year	'CHANGE'	reference in	
Statement of	amounts	Column (G)	Use adjustment
Revenues,	from	to Balance	amounts in
Expenses and	Balance	Sheet	Column (H) to
Changes in Net	Sheet	Column (D)	create Cash Flow
Assets	Column (C)		Statement

		7
Proceeds from sale of capital assets	Cash increases - Enter as a positive amount	
		7-If a capital in nature
Proceeds from intergovernmental capital grants		20-If capital in nature
TOTAL CASH FLOWS FROM (CAPITAL AND ACTIVITIES: (61,091	

(2000	3
6	od u	
_	J.º	D)
1	2 0	1

(E)	(F)	(G)	(H)
End of year increases and decreases of CASH	Adjustments to cash	75	Total=Adjuste d End of year CASH increases and decreases
From current		Match reference in	Use adjustment
year Statement	Enter	Column (G)	amounts in
of Revenues,	'CHANGE'	to Balance	Column (H) to
Expenses and	amounts from	Sheet	create Cash
Changes in Net	Balance Sheet	Column (D)	Flow
Assets	Column (C)		Statement

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Operating subsidies and transfers to other funds

	funds				$= (\mathbf{E}) + (\mathbf{F})$
44	Transfers to other funds	4	(10,000.00)		
	Transfers from other funds		(10,000.00)		
46	Short-term loans to other funds			6	
47	Short-term loans from other fund			19	
48	Advances to other funds			4, 10	
49	Advances from other funds			21,26	

			(E)	(F)	(G)	(H)
D			End of year increases and	8	4	Total=Adjust End of year
			decreases of	Adjustments	<	CASH increas
			CASH From current	to cash Enter	Match	and decrease
			year Statement		reference in	Use adjustme
			of Revenues,	amounts	Column (G) to	•
					Balance Sheet	
			Changes in Net		Column (D)	create Cash
			Assets	Column (C)		Flow Stateme
	CASH FLOWS FROM NON-O	CAPITAL FI	INANCING AC	CTIVITIES, (cont.):	
	Operating subsidies and transfers to	o other funds		52		$= (\mathbf{E}) + (\mathbf{F})$
50	Proceeds from operating loans	Enter as a positive amount.			The total of principal debt payments and	
	Troceeds from operating loans	amount.			proceeds from	
		D			new loans	
		Enter as negative			should equal the total of 22	
51	Principal paid on operating loans	amount			& 27	
)			7-If non-capital	
					in nature	
					20-If non-	
52	Intergovernmental revenue				capital in nature	
	8					
	TOTAL CASH DI ONG	EDOMANON				
53	TOTAL CASH FLOWS CAPITAL FINANCING					
		TI VIIII	1			

607075		
	(E)	(F)
S Te		

(E)	(\mathbf{F})	(G)	(H)
End of year	2 - 7		Total=Adjusted
increases and	- /		End of year
decreases of	Adjustments to	7 3	CASH increases
CASH	cash	Match	and decreases
From current		reference in	
year Statement	Enter	Column (G)	Use adjustment
of Revenues,	'CHANGE'	to Balance	amounts in
Expenses and	amounts from	Sheet	Column (H) to
Changes in Net	Balance Sheet	Column (D)	create Cash
Assets	Column (C)		Flow Statement

CASH FLOWS FROM INVESTING AC			$= (\mathbf{E}) + 0$
Interest on investments	17,665.74	5	
		If amount	
		(G-54) is a	
		negative	
		amount,	
		report as	
		'Decrease in	
		fair value of	
Decrease in fair value of		investments'	
investments		here	

TOTAL CASH FLOWS FROM INVESTING ACTIVITIES:

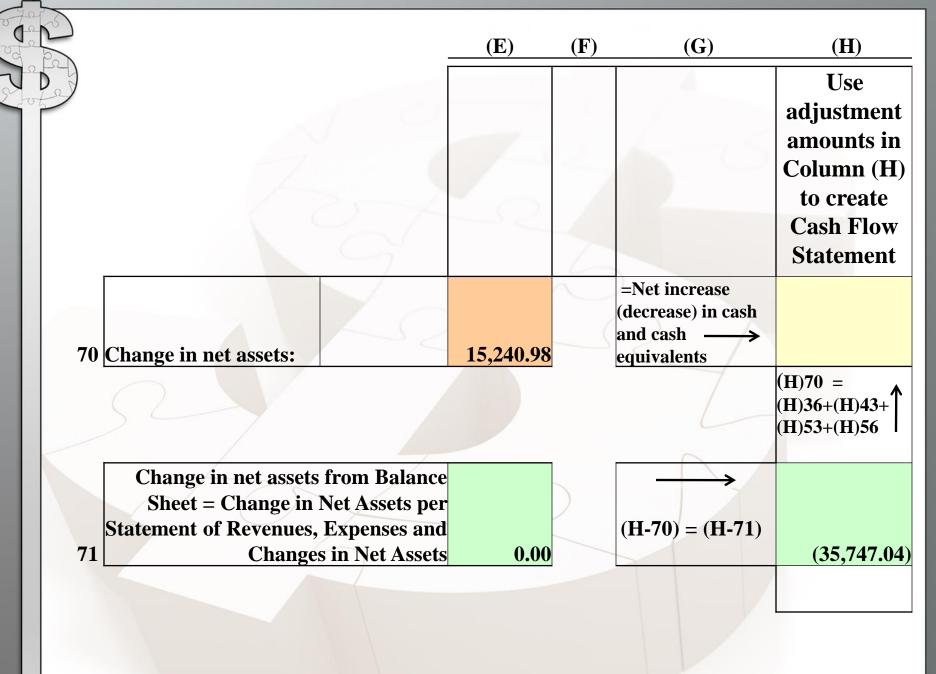
56

17,665.74

		_	(E)	(F)	(G)	(H)
			From	Adjustment to -0- out. If amount below is a negative amount, the amount needs to be added to the appropriate line of an element above. If the amount below is a positive amount, the equal amount needs to be subtracted from a line of an element		All Non-cash total year end adjusted amounts in
	NON-CASH ENTRIES:	56	Expenses and Changes in Net Assets	above.		Column (H) should be -0-
57		h payment claims'			i	0.00
	Capital Contributions const	quisition and truction of				
58		tal assets'	20,000.00	(20,000.00)	ii	0.00

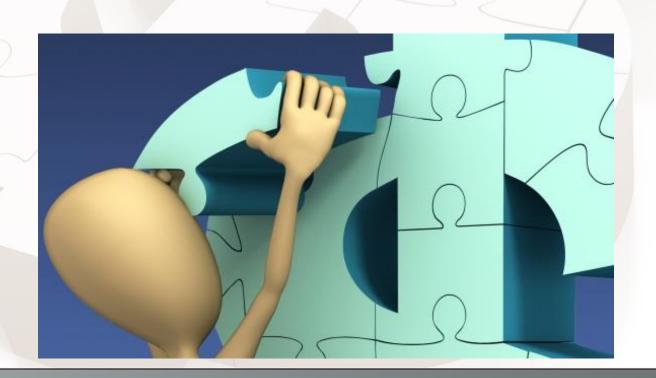
2			<u>(E)</u>	(F)	(G)	(H)
2)		10		Adjustment to -0- out.		
				If amount below is a negative amount, the amount needs		
				to be added to the appropriate line of an element above.		
				amount, the equal amount needs to be		All Non-cash total year end adjusted
			Expenses and Changes in Net Assets			amounts in Column (H) should be -0-
N	ON-CASH ENTRIES,	<u>(cont.):</u>				
59 1	Depreciation	Acquisition and construction of capital assets	(77,254.53)	77,254.53	iii	0.00
G	ain (Loss) on sale of capital	Acquisition and construction of				
60 ass	set	capital assets	(400.00)	400.00	iiii	0.00

7			(E)	(F)	(G)	(H)
De			(-)	Adjustment to -0- out. If amount below is a negative amount, the amount needs to be added to the		
	NON-CASH ENTRIES,		From current year Statement of Revenues, Expenses and Changes in Net Assets	appropriate line of an element above. If the amount below is a positive amount, the equal amount needs to be subtracted from a line of an element		All Non-cash total year end adjusted amounts in Column (H) should be -0-
		Choose appropriate line				
61	Restatements	of element above	(160.23)	160.23	iiiii	0.00





CREATE FINAL CASH FLOW STATEMENT FROM ENDING AMOUNTS OF CASH FLOW WORKSHEET



6	1000	0
-	3	
1		

		5210 Water	
Cash flows from operating activities:			
Cash received from customers-charges for services or assessments	\$	290,857.82	
Cash payments for claims - other than personal services		(61,574.42)	
Cash payments to employees		(102,319.62)	
Cash received (Paid) from deposits		(531.16)	
Net cash provided (used) by operating activities	\$	126,432.62	(A)
Cash flows from capital and related financing activities:			
Principal paid on bonds, notes, loans and contracted debt		(27,759.36)	
Proceeds from bonds, notes and loans		100,000.00	
Interest paid on bonds, loans and advances		(61,091.96)	
Acquisition and construction of capital assets		(110,000.00)	
Proceeds from sale of capital assets		500.00	
Net cash provided (used) by capital and related financing activities	\$	(98,351.32)	
Cash flows from non-capital financing activities: Operating subsidies and transfers to other funds Transfers to other funds		(10,000.00)	
Net cash provided (used) from non-capital financing activities	\$	(10,000.00)	
Cash flows from investing activities:			
Interest on investments		17,665.74	
Net cash provided (used) by investing activities	\$	17,665.74	
Net increase (decrease) in cash and cash equivalents	\$	35,747.04	
Cash and cash equivalents at beginning		530,479.00	
Cash and cash equivalents at end	\$	566,226.04	(C)
	$(\mathbf{C}) = \mathbf{T}$	OTAL CASH AT YEAR EN	D

6	C C	100	1	7
_	7	LΩ	Des D	0
1	3	U	10	

	_	5210 Water	
Cash flows from operating activities:			
Cash received from customers-charges for services or assessments	\$	290,857.82	
Cash payments for claims - other than personal services		(61,574.42)	
Cash payments to employees		(102,319.62)	
Cash received (Paid) from deposits	<u> </u>	(531.16)	
Net cash provided (used) by operating activities	\$_	126,432.62	_(A)
SUPPLEMENTARY REPORT USING INDIRECT METHOD			
Reconciliation of operating income (loss) to net cash provided			
(used) by operating activities:			
Operating income (loss)	\$	49,227.43	
Adjustments to reconcile operating income to net cash			
provided (used) by operating activities:			
Depreciation		77,254.53	
Changes in assets and liabilities:			
Accounts receivable - net/Assessments receivable - net		(912.18)	
Deposits payable		(531.16)	
Accounts payable		(100.00)	
Compensated absence payable		1,494.00	
Net cash provided (used) by operating activities	\$ _	126,432.62	(B)
		(A) = (B) = STATEMENT BALANCES	



QUESTIONS

